

## Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 15332 01 OF 03 241728Z

44

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 OIC-04 SS-20 DRC-01 PA-04 PRS-01 USIA-15 FEA-02

INT-08 /193 W

----- 005882

R 241706Z JUN 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 3101

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 15332

DEPT PASS TREAS FOR GORDON AND KORP

E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: COMMITTEE ON FISCAL AFFAIRS MEETING JUNE 1974

REFS: (A) OECD DOCUMENT CFA(74)6

(B) OECD DOCUMENT CFA(74)10

(C) OECD DOCUMENT DAF/CFA/74.3

(D) OECD DOCUMENT CFA(74)4

(E) OECD DOCUMENT CFA(74)7

(F) OECD DOCUMENT CFA(74)5

(G) OECD DOCUMENT CFA(74)12

(H) OECD DOCUMENT CFA(74)1

(I) OECD DOCUMENT CFA(74)3

(J) OECD DOCUMENT CFA(73)13 (1ST REV)

(K) OECD DOCUMENT CFA(74)11

(L) OECD DOCUMENT CFA(74)8

(M) OECD DOCUMENT CFA(74)9

1. SUMMARY. AT MEETING 18-20 JUNE, COMMITTEE ON FISCAL

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 15332 01 OF 03 241728Z

AFFAIRS (CFA) EXAMINED ALL SUBSTANTIVE AGENDA ITEMS BUT

LEFT MAJOR DECISIONS ON FUTURE WORK PROGRAM OF CFA TO MEETING OF AD HOC GROUP SCHEDULED FOR OCT 10, 1974. KERLAN (FRANCE) WAS ELECTED CHAIRMAN CFA FOR 1974. WP-6 REPORT ON TAXATION OF MNCS (REF A) WAS APPROVED FOR SUBMISSION TO COUNCIL. MEMBERS ARE REQUESTED TO SUBMIT COMMENTS AND/OR CORRECTIONS TO REPORTS NOTED IN PARAS 4, 5, 6, 9 BELOW BY JULY 31, 1974. NEXT MEETING OF CFA SCHEDULED FOR JAN 14-17, 1974. END SUMMARY.

2. TAXATION MULTINATIONAL ENTERPRISES: CFA ADOPTED REFERENCE (A) AND WORK PROGRAM OUTLINED THEREIN AFTER DETAILED REVIEW EACH PARAGRAPH. SWISS AND BELGIAN REPS FELT PROJECT TO OBTAIN EVIDENCE ON ARMS-LENGTH PRICING WOULD BE EXTREMELY DIFFICULT TO COMPLETE. MAIN ISSUES TO BE DEALT WITH BY WP-6 CONCERN TRANSFER PRICING (INCLUDING INTEREST PAYMENTS) AND EXAMINATION OF TAX MEASURES, BOTH ADMINISTRATIVE AND LEGISLATIVE, IMPLEMENTED BY VARIOUS COUNTRIES TO AVOID OR ABATE TAX HAVEN ABUSE. ON QUESTION OF GUIDELINES AND STANDARDS OF BEHAVIOR, CFA PREFERRED TO AIM FOR DEVELOPMENT OF SPECIFIC RATHER THAN GENERAL GUIDELINES, BASED ON STILL-TO-BE-COMPLETED WORK IN WP-6 AND WP-1. WP-6 EXPECTS TO COMPLETE PRELIMINARY WORK ON GUIDELINES FOLLOWING MEETING OF ITS AD HOC STUDY GROUP WITH BIAC FISCAL COMMITTEE OCT 14-15, 1974. LATTER MEETING WILL COVER ALL ASPECTS OF MNC TAXATION, WITH IDEA OF DETERMINING AREAS IN WHICH BIAC MIGHT MOST USEFULLY ASSIST WP-6. SPECIAL ATTENTION WILL BE GIVEN TO TRANSFER PRICING AND TAX HAVENS. STUDY GROUP HOPES TO OBTAIN VIEWS OF ENTERPRISES AND PRACTITIONERS THESE QUESTIONS. FOLLOWING THIS MEETING, WP-6 ITSELF WILL MEET OCT 16, 1974 TO COMPLETE PRELIMINARY PAPER ALREADY BEGUN ON QUESTION OF INTERCOMPANY INTEREST PAYMENTS. FOLLOWING COMPLETION OF SUBSTANTIVE WORK ON TRANSFER PRICING AND TAX HAVENS, WP-6 WILL CONSIDER EXTENT TO WHICH GUIDELINES OR RULES OF CONDUCT THESE AREAS WOULD BE APPROPRIATE. SUBSEQUENT WORK WOULD THEN BE UNDERTAKEN ON POSSIBILITY OF GUIDELINES IN OTHER AREAS OF TAXATION OF MNCS.

3. DOUBLE TAXATION: CFA APPROVED REVISED ARTICLE 25 OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 15332 01 OF 03 241728Z

OECD DRAFT DOUBLE TAXATION CONVENTION. WP-1 WILL CONTINUE ITS WORK TO REVISE SEVEN REMAINING ARTICLES OF CONVENTION. DISCUSSION ON QUESTION OF TAXATION OF CO-INSURANCE CONTRACTS WAS DEFERRED UNTIL CONSIDERATION IS GIVEN IN FALL 1974 BY AD HOC GROUP ON WORK PROGRAM OF CFA (SEE PARA 7 BELOW).

4. CLASSIFICATION OF TAX REVENUES: QUESTIONNAIRE PRE-

PARED BY WP-2 TO OBTAIN DATA ON TAX REVENUES BY LEVELS  
OF GOVERNMENT WILL BE DISTRIBUTED IN FALL 1974. MEMBERS  
ARE REQUESTED TO REVIEW REPORT ON TAX BURDENS OF AVERAGE  
PRODUCTION WORKERS (REF D) AND SUBMIT ANY CORRECTIONS TO  
SECRETARIAT BY JULY 31, 1974. CFA DECIDED TO ABANDON  
FOR TIME BEING ANY FURTHER WORK ON QUESTION OF TAX AIDS  
(REF E). HOWEVER, UPON SUGGESTION OF U.S. REP, CFA  
AGREED THAT SECRETARIAT MIGHT USE CONTENTS OF REF E AS

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 15332 02 OF 03 241732Z

44

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 OIC-04 SS-20 DRC-01 PA-04 PRS-01 USIA-15 FEA-02

INT-08 /193 W

----- 005926

R 241706Z JUN 74

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 3102

LIMITED OFFICIAL USE SECTION 2 OF 3 OECD PARIS 15332

BASIS FOR ARTICLE TO BE WRITTEN AND PUBLISHED IN OECD  
OBSERVER.

5. TAX DEPRECIATION PRACTICES: CHAIRMAN OF GROUP OF  
EXPERTS ON TAX DEPRECIATION PRACTICES (KOPITS) REPORTED  
ORALLY ON REVISIONS TO STUDY ON INTERNATIONAL COMPARISON  
OF TAX DEPRECIATION PRACTICES (REF J). REVISION WAS  
MAINLY DONE ALONG LINES SUGGESTED IN REPORT BY GROUP OF  
EXPERTS (REF I). REVISED VERSION REF J SEEMED GENERALLY  
ACCEPTABLE TO MOST MEMBER COUNTRIES. QUESTIONS WERE

RAISED BY AUSTRIA AND GERMANY RE INFLUENCE OF HIGH TAX RATES IN THOSE COUNTRIES ON COST OF CAPITAL COMPARISONS. CFA DECIDED THAT REVISED VERSION SHOULD TAKE INTO ACCOUNT HIGH AND LOW TAX RATES FOR COUNTRIES WITH SPLIT TAX RATE SYSTEMS, AS WELL AS FOR COUNTRIES WITH IMPUTATION TAX SYSTEM WHERE TAX RATE ON DISTRIBUTED CORPORATE INCOME IS LOWER THAN TAX RATE ON REINVESTED CORPORATE INCOME. GROUP CHAIRMAN AGREED TO MAKE ALL REVISIONS BEFORE END OF JULY SO THAT SECRETARIAT MAY TRANSLATE AND DISTRIBUTE REVISED VERSION TO MEMBER COUNTRIES.  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 15332 02 OF 03 241732Z

DERESTRICTION OF REF J WILL SUBSEQUENTLY BE RECOMMENDED TO COUNCIL. SEVERAL COUNTRIES, INCLUDING UK, U.S., CANADA, EMPHASIZED THAT REVISED STUDY SHOULD BE PUBLISHED SOON AS POSSIBLE.

6. INVESTMENT COMPANIES: WG-33 WILL MEET OCT 7, 1974, TO CONSIDER MODIFICATIONS IN REPORT ON TAXATION OF INVESTMENT COMPANIES (REF K). COUNTRIES EXPECTED TO PARTICIPATE THIS MEETING ARE U.S., SWITZERLAND, BELGIUM, GERMANY, AUSTRALIA, FRANCE, PORTUGAL. CFA ASKED SECRETARIAT TO TAKE MORE ACTIVE ROLE IN WORK OF EXPANDED WG-33. MEMBERS ARE ASKED TO REVIEW ANNEX TO REF K AND FORWARD ANY CORRECTIONS TO SECRETARIAT BY JULY 31, 1974.

7. FUTURE WORK PROGRAM: AFTER PRELIMINARY DISCUSSION OF VARIOUS TOPICS LISTED IN ADDENDUM TO REF L, CFA AGREED THAT IT WOULD CONCENTRATE ATTENTION INITIALLY ON FIRST FOUR ITEMS IN LIST (TAX BENEFIT TREATMENT OF SELECTED HOUSEHOLD UNITS, TAX TREATMENT OF THE FAMILY, TAX TREATMENT OF HOUSEHOLD SAVINGS AND INVESTMENT, AND NON-CONJUNCTURAL ASPECTS OF TAXATION AND INFLATION). FINAL DECISIONS ON REMAINDER OF WORK PROGRAM WILL BE MADE BY AD HOC GROUP SCHEDULED TO MEET OCT 10-11, 1974. DECISION ON QUESTION OF TAXATION OF INTERNATIONAL OIL COMPANIES (QUESTION ON IMPLICIT IN ITEM 18 OF ADDENDUM TO REF L) ALSO POSTPONED UNTIL OCT MEETING OF AD HOC GROUP. IT WAS EXPECTED THAT MAJOR PROBLEMS TO BE DEALT WITH IN ANY STUDY OF MNC OIL COMPANY TAXATION WOULD INCLUDE PRICING POLICIES OF INTERNATIONAL OIL COMPANIES AS WELL AS REVIEW OF TAX POLICIES APPLIED TO NATIONAL REPEAT NATIONAL OIL COMPANIES (E.G., EXTENT TO WHICH IT IS

DESIRABLE TO TAX PRODUCTION, DISTRIBUTION AND/OR PROFITS). CFA DECIDED TO CONTINUE LIFE OF WP-2 AND WG-32, BUT FINAL DECISION ON WORK PROGRAMS THESE GROUPS WILL BE MADE IN FALL 1974.

8. EXCHANGE OF INFORMATION ON TAX CHANGES: CFA NOT

ENTHURIASTIC ABOUT ADOPTING INSTITUTIONAL PROCEDURE FOR  
EXCHANGE OF INFORMATION AS OUTLINED IN AUSTRIAN PROPOSAL  
(REF H). IT WAS AGREED THAT SAME DEGREE OF INFORMATION  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 15332 02 OF 03 241732Z

EXCHANGE ALREADY EFFECTIVELY EXISTS IN EXISTING SOURCES  
COUPLED WITH INFORMAL CONTACTS BETWEEN MEMBERS OF CFA ON

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 15332 03 OF 03 241722Z

44

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 OIC-04 SS-20 DRC-01 PA-04 PRS-01 USIA-15 FEA-02

INT-08 /193 W

----- 005853

R 241706Z JUN 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 3103

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 15332

SPECIAL QUESTIONS. PROPOSAL TO FORMALIZE THESE PROCE-  
DURES WAS NOT ADOPTED.

9. TAX DEVELOPMENTS FIRST HALF 1974: NUMBER OF  
COUNTRIES (JAPAN, BELGIUM, U.K.) SUGGESTED MINOR TECHNI-  
CAL CORRECTIONS TO REF F AND ADDENDUM. DURING DISCUS-

SION OF EXPECTED CHANGES IN U.K. TAXATION OF FOREIGN INCOME, U.K. REP NOTED THAT REF G HAD BEEN CORRECT AS OF JUNE 14, BUT THAT NUMBER OF ADDITIONAL CHANGES HAD SINCE BEEN PROPOSED, INCLUDING PROPOSAL TO TAX AT 75 PERCENT ALL INCOME OF INDIVIDUAL DEEMED RESIDENT IN U.K. AS RESULT OF RESIDENCE THEREIN OVER NINE OUT OF PAST TEN YEARS. PROPOSALS TO TAX PENSION INCOME MORE HEAVILY IN U.K. ALSO MAY BE MODIFIED. IT IS NOW PROPOSED THAT SUCH INCOME BE TAXED IN U.K. ONLY TO THE EXTENT REMITTED TO U.K. IN ANSWER TO QUESTIONS ON EEC ITEM IN ADDENDUM TO REF F, EEC REP NOTED THAT TEXT OF REPORTS CONCERNING STUDY ON TAXATION OF OIL COMPANIES IS NOT YET AVAILABLE. HE STRESSED THAT GOAL OF EC DIRECTIVES THIS QUESTION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 15332 03 OF 03 241722Z

WOULD BE SITUATION IN WHICH OIL COMPANY OPERATIONS IN A NUMBER OF COUNTRIES SIMULTANEOUSLY WOULD NOT BE SUBJECT TO GREATER TAX BURDEN THAN IF ALL OPERATIONS OCCURRED WITHIN ONE COUNTRY. SECRETARIAT ASKED MEMBERS TO INFORM IT CONCERNING POINTS OR QUESTIONS REGARDING TAXATION OF INTERNATIONAL OIL COMPANIES WHICH MIGHT BE APPROPRIATE FOR DISCUSSION IN OCT 1974. IN RESPONSE TO QUESTIONS ON STATUS OF U.S. TAX REFORM, U.S. REP INDICATED THAT DEPRECIATION ALLOWANCES PROBABLY WOULD BE MODIFIED. WHILE HOUSE HAD ABANDONED PROPOSAL ON TAXATION OF WINDFALL PROFITS, SENATE MAY REVIVE SAME. PROPOSALS ARE BEING CONSIDERED TO REVISE TAXATION OF CAPITAL GAINS TO INCLUDE MORE THAN TWO STAGES IN HOLDING PERIOD FOR DETERMINING CAPITAL GAINS TAX. PROPOSAL ALSO BEING CONSIDERED TO ELIMINATE EXEMPTION ON FIRST \$20,000 OF EARNINGS BY U.S. CITIZENS RESIDENT ABROAD. WHILE HOUSE WAYS AND MEANS HAS VOTED TO ELIMINATE WITHHOLDING TAX ON PORTFOLIO INVESTMENT INCOME OF FOREIGN INVESTORS, SOME GROUPS WISH TO EXPAND THIS TO INCLUDE DIRECT INVESTMENT INCOME. BROWN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** MEETING AGENDA, FINANCIAL TRENDS, BUSINESS FIRMS, COMMITTEE MEETINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 JUN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CollinP0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974OECDP15332  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740165-0742  
**From:** OECD PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740620/aaaaaqix.tel  
**Line Count:** 317  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** (A) OECD DOCUMENT CFA(74)6  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CollinP0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 22 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <22 APR 2002 by cunninfx>; APPROVED <21 FEB 2003 by CollinP0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COMMITTEE ON FISCAL AFFAIRS MEETING JUNE 1974  
**TAGS:** EFIN, OECD  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005